RESEARCH HIGHLIGHTS

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LITERATURE REVIEW OF SOCIO-ECONOMIC TRENDS AFFECTING CONSUMERS AND HOUSING MARKETS

Introduction

This study reviews and synthesizes research focusing on the impact of socio-economic trends on consumers and housing markets. Based on a synthesis of the literature, it discusses current thinking, notes research gaps and identifies priority research questions that will inform a national housing research agenda. Where appropriate, the work draws on material from Australia, New Zealand, the United Kingdom and the United States. Regional and sub-market variations of the various trends and issues within Canada are provided.

Methodology

A literature review served as the exclusive means of gathering information on the trends and issues affecting housing and consumer markets. Drawing on literature from the academic environment, professional organizations, private consultants, the building industry, and third sector organizations work from disciplines including economics, demography, sociology, geography, the physical sciences, environmental studies, planning, the health care and social policy fields are covered in the report.

To analyse the impact of key socio-economic trends and issues on the complex and diverse housing circumstances across the nation, a typology of housing sub-markets was developed. The sub-markets included:

High Growth Metropolitan Centres: large Census Metropolitan Areas (CMAs) with high rates of population and economic growth that tend to be the destination of domestic and international immigration (Toronto, Vancouver, Calgary, for example) and smaller urban centres like Moncton and Barrie with high rates of population growth.

Slow Growth Metropolitan Centres: urban centres with slower population growth rates and less buoyant and fluctuating economies (Saint John, Sault Ste Marie and Prince George are examples).

Small Town Canada: most of the urban centres of more than 1,000 and less than 10,000 people with slow or negative growth rates, youth out-migration, older population profiles and often stagnant economies.

Rural Communities: unincorporated places and centres of less than 1,000 population characterized by youth out-migration, population loss, limited housing demand, loss and closure of businesses and associated job loss.

The North: centres in the northern territories and northern areas of most provinces where housing and infrastructure costs are affected by harsh environmental conditions, population growth rates are high and children and youth dominate the population profile.

Although this typology has its limitations as it does not capture all the diversity that exists, it provides a useful framework to analyse how the various socio-economic trends and issues affect different types of communities.

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Major Trends

In the review of the literature the socio-economic trends affecting consumer and housing markets were organized under twelve theme areas. The theme areas and some of the more important issues in each theme are noted below:

Macroeconomic Factors: understanding the effect of changes in capital markets and global investment patterns on mortgage markets and interest rates, and their impact on the cost of housing and changes in the taxation system and the effects on housing costs were key issues in the literature;

Demographic Changes: general trends in population growth rates, changes in fertility, mortality and migration trends, the changing nature of households, population aging and changing lifestyle preferences were reviewed and the implication for the housing market noted. Differential growth by age groups and the long term effects on the housing market, migration trends and their implications for investment and disinvestment in housing, and Aboriginal population growth, migration and demand for housing were other key issues;

Labour Force Changes: the changing nature of the labour force, growth of low end and high end jobs, growth in the "new economy" and knowledge workers and the implications for housing type, tenure and location were key issues in this theme area;

Housing Construction and Renovation: trends in housing starts, the renovation of existing units, public housing supply, manufactured housing and changes in construction technology and their effects on the market place were among the general trends noted. Financing of housing maintenance and the rehabilitation of older rental properties and the impacts of technology innovations on the housing industry and the overall quality and cost of housing were among other issues noted;

Cost of Housing: trends in mortgage rates, labour and materials costs, infrastructure costs and development fees and their implications for housing costs were among the major issues affecting the cost of housing;

Financing Mechanisms: trends in mortgage financing and down payment requirements, new mortgage vehicles, and changes to the mortgage insurance systems were key aspects of this theme. In addition developing new financing mechanisms for changing tenure options, multi-party funding, and mixed use developments, were key themes in the literature;

Municipal Infrastructure: the cost of renewing aging inner city systems and servicing new peripheral locations and the anticipated effects on housing costs were highlighted in the literature. Equally important was assessing the role of changing land use patterns and changes in urban form in generating savings in infrastructure costs;

Smart Growth: new approaches to planning and management of urban growth and housing design, developing environmentally sensitive infrastructure and better defining the benefits of smart growth (costs, environmental implications) were important themes. Determining people's preferences, attitudes, and acceptance of smart growth was also noted as a key issue;

Market Failure: imperfections and structural barriers such as the lack of access to information that prevent markets from efficiently allocating housing resources were the focus of discussions in the literature as were ways and means of overcoming these barriers;

Multiculturalism and Housing Variation: the key issues identified included effects of increasing diversity in Canadian society and the role of immigration as a driver of housing demand, assessing the extent of discrimination in housing markets, assessing the effectiveness of anti-discrimination laws and regulations, and enforcement mechanisms, and examining the evidence and impact of discrimination in housing choice on immigrant populations;

Income Disparity: trends in the distribution of income, poverty and the relationship between poverty and the various demographic, household, ethnic and racial groups and the potential effects on housing markets and tenure choice were key aspects of the literature;

Rental Markets and Rental Investment: vacancy rates, and inventory trends, understanding the nature and magnitude of stock losses in the rental sector, and understanding how changing household structure impacts the rental market were the focus of discussion in much of the literature. Equally important were difficulties associated with maintaining the existing inventory and the scale of investment required to maintain this inventory as well as incentives that might be required to encourage this investment and building a better understanding of the non-traditional rental sector.

Following the identification of trends within the twelve theme areas, the sub-market typology was used to analyse any differences in these trends in the different sub-markets and how they affect different types of communities in different ways.

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Criteria for Research Priorities

Building on the trends and issues noted above plus details in the report, priority questions for future research were identified using the following criteria:

I. the importance the issue or trend is given in the literature, particularly as a driver of (the) housing market(s);

II. the potential of the issue or trend to influence a number of sub-markets;

III. the gaps in research that are apparent;

IV. the potential to actually carry out the research (cost, data availability, time requirements, etc.);

V. potential to build on existing knowledge;

VI. impact in terms of new knowledge creation and new avenues of investigation; and,

VII. the potential to influence public policy.

Priority Questions for Future Research

Following this process and using the above noted criteria, eight potential priority questions that can be used to guide future research initiatives were identified. These questions are listed below:

Q1. What is the effect of Aboriginal population growth and migration on the Off Reserve demand for various housing options and associated support services?

Q2. What are the short and long term effects of the polarization of the labour force (which has resulted in growth in both high end and low end jobs) on the housing market in Canada's major metropolitan centres?

Q3. What is the nature and extent of discrimination in the housing market? Which population groups face discrimination? Are the current anti-discrimination laws and enforcement regulations effective? If not, how might they be strengthened?

Q4. Over the next couple of decades, what will be the short and long term effects on housing affordability, if municipalities need to cope with extensive expenditures to repair aging infrastructure?

Q5. What are the specific housing needs of distinct immigrant and refugee populations, the barriers they face, and the opportunities that will be created for the new construction and renovation industry?

Q6. What are the options for enhancing public demand and acceptance of Smart Growth housing and planning options?

Q7. What is the extent and nature of changes in the private affordable rental housing portfolio? What is the level of investment required to modernize and renovate older properties? What feasible strategies can be developed to encourage the investment necessary to maintain and enhance the existing private rental inventory in Canada's urban centres?

Q8. Is the condition of Canada's aging housing stock in slower growth small town and rural sub-markets deteriorating? How will the related factors of age and condition of the stock affect operating costs?

Conclusion

The eight questions identified do not represent a comprehensive list of important research priorities related to the review of socio-economic trends affecting consumers and housing markets. They have, however, been singled out because of their importance to a number of sub-market areas and because of the potential to affect a number of policy areas, often beyond the housing field. A more comprehensive discussion of the trends and associated research questions and initiatives are detailed in the report. The report is one of many initiatives undertaken by CMHC to help develop a national housing research agenda.

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Housing Research at CMHC

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